MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BBF2124 – FINANCIAL MANAGEMENT II

(All sections / Groups)

12 OCTOBER 2016
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 3 pages with 6 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given .
3. Please write all your answers in the Answer Booklet provided.

INSTRUCTION: ANSWER ALL QUESTIONS.

QUESTION 1

Mega Raya is evaluating three different machines to be used by its new plant. All three of the machines are equally risky. The cost of capital of Mega Raya is 8%. Based on the following information, do advise the management on the best machine to be used by the new plant.

	Machine Alta	Machine Alma	Machine Alza
Initial investment →	RM85,000	RM70,000	RM98,500
Year	Cash inflows (RM)		
1	25,000	20,000	36,000
2	25,000	35,000	36,000
3	25,000	35,000	-5,500
4	25,000	30,000	37,000
5	25,000	-	55,000
6	25,000	-	-

(15 marks)

(Total: 15 marks)

QUESTION 2

i) Berjaya Company has sales of 100,000 units at RM2.00 per unit, variable operating costs of RM1.70 per unit, and fixed operating costs RM7,000. Interest is RM10,000 per year. Mudah Company has sales of 100,000 units at RM2.50 per unit, variable operating costs of RM1.00 per unit, and fixed operating of RM63,500. Interest is RM17,500 per year. Assume that both firms are in the 40% tax bracket.

(a) Compute the degree of operating, financial, and total leverage for Berjaya Company and Mudah Company.

(12 marks)

(b) Compare the relative risks of the two companies and discuss the principles of leverage.

(5 marks)

ii) What are the various risks faced by the shareholders of a company?

(8 marks)

(Total: 25 marks)

QUESTION 3

i) Modigliani and Miller (MM) showed that, under perfect market conditions and with no taxes, dividend policy could not affect the value of the firm. Discuss.

(9 marks)

ii) The stockholders' equity account of Rest &Relaz is as follows:

Common stock (280,000 shares at RM3.50 par)	RM980,000
Paid-in capital in excess of par	900,000
Retained earnings	1,300,000
Total stockholders' equity	RM3,180,000

The earnings available for the common stockholders are RM280,000 and are included in the RM1,300,000 retained earnings.

(a) Calculate the maximum dividend per share that the firm can pay if the legal capital includes all paid-in capital.

(2 marks)

(b) Calculate the maximum dividend per share that the firm can pay if the legal capital includes only the value of the common stock.

(2 marks)

(c) If Rest & Relaz has RM 35,000 in cash, what is the largest per-share dividend the firm can pay without borrowing, assuming legal capital includes all paid-in capital?

(2 marks)

(Total: 15 marks)

QUESTION 4

Discuss operating lease and financial lease.

(10 marks)

(Total: 10 marks)

Continued...

QUESTION 5

You have been appointed as a Chief of Transformational Officer of Parkson Holdings Berhad (Parkson). Parkson is an investment holding company, operates departmental stores in Malaysia, Singapore, People's Republic of China, Indonesia and Vietnam.

In order to face the challenges ahead, there is a need for Parkson to involve in merger activity. Briefly propose each of the following types of mergers for Parkson. Indicate the main benefit of the merger process to the new entity:

(a) Horizontal (5 marks)

(b) Vertical (5 marks)

(c) Congeneric (5 marks)

(d) Conglomerate (5 marks)

(Total: 20 marks)

QUESTION 6

i) Briefly discuss some of the international factors that cause the capital structures of multinational companies (MNCs) to differ from those of purely domestic firms.

(10 marks)

ii) Explain the main benefit behind the existence of the Eurocurrency market. What is/are the main factor(s) determining foreign exchange rates in that market.

(5 marks)

(Total: 15 marks)

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